Heineken Holding N.V. reports 2018 full year results

Amsterdam, 13 February 2019 – Heineken Holding N.V. (EURONEXT: HEIO; OTCQX: HKHHY) announces:

- The net result of Heineken Holding N.V.'s participating interest in Heineken N.V. for 2018 amounts to €961 million
- Net revenue (beia) organic growth +6.1% with +2.0% per hectolitre
- Consolidated beer volume +4.2% with growth in all regions
- Heineken® volume +7.7%, best performance in over a decade
- Operating profit (beia) organic growth +6.4%
- Operating profit margin (beia) 17.2% (-17 bps[1])
- Net profit (beia) €2,424 million, +12.5% organically
- Proposed 2018 total dividend +8.8% at €1.60 per share

FINANCIAL SUMMARY[2]

BEIA Measures	€ million	Organic growth (%)	IFRS Measures	€ million	Total growth (%)
Revenue (beia)	26,811	5.9	Revenue	26,811	3.7
Net Revenue (beia)	22,471	6.1	Net Revenue	22,471	4.0
Operating profit (beia)	3,868	6.4	Operating profit	3,137	-6.4
Operating profit (beia) margin	17.2%		Net profit of Heineken Holding N.V.	961	-1.6
Net profit (beia)	2,424	12.5	Diluted EPS (in €)	3.34	-1.5
Diluted EPS (beia) (in €)	4.25	7.9			
Free operating cash flow	2,246				
Net debt / EBITDA (beia)[3]	2.3x				

[1] Margin expansion is calculated using the last year restated margin as baseline to exclude any benefit from the first application of IFRS 15. Please refer to page 13 for more details.
[2] Consolidated figures are used throughout this report, unless otherwise stated; please refer to the Glossary section for an explanation of non-GAAP measures and other terms used throughout this report.
[3] Includes acquisitions and excludes disposals on a 12 month pro-forma basis.

Heineken Holding N.V. engages in no activities other than its participating interest in Heineken N.V. and the management or supervision of and provision of services to that company.

FULL YEAR 2019 OUTLOOK STATEMENT

For 2019, HEINEKEN expects the following:

- Continued volatility in economic conditions
- Superior top-line growth driven by volume, price and premiumisation
- Mid-single digit increase of input and logistic costs per hectolitre on an organic basis
- Continued cost management and productivity initiatives

Given this, operating profit (beia) is expected to grow by mid-single digit on an organic basis, excluding any major unforeseen macro economic and political developments.

Also is anticipated:

- An average interest rate (beia) broadly in line with 2018 (2018: 3.2%)
- An effective tax rate (beia) between 27% and 28% (2018: 26.4%)
- Capital expenditures related to property, plant and equipment around €2 billion (2018: €1.9 billion)

TOTAL DIVIDEND FOR 2018

The Heineken N.V. dividend policy is to pay out a ratio of 30% to 40% of full year net profit (beia). For 2018, payment of a total cash dividend of €1.60 per share (2017: €1.47) will be proposed to the Annual General Meeting of Shareholders of Heineken N.V. on 25 April 2019 ("2019 AGM"). This represents an increase of 8.8% versus 2017, translating into a 37.6% payout. If approved, a final dividend of €1.01 per share will be paid on 8 May 2019, as an interim dividend of €0.59 per share was paid on 9 August 2018. The payment will be subject to a 15% Dutch withholding tax.
If Heineken N.V. shareholders approve the proposed dividend, Heineken Holding N.V. will, according to its articles of association, pay an identical dividend per share. A final dividend of €1.01 per share of €1.60 nominal value will be payable as of 8 May 2019.
Both the Heineken Holding N.V. shares and the Heineken N.V. shares will trade ex-dividend on 29 April 2019.

BOARD OF DIRECTORS COMPOSITION

Mrs C.L. de Carvalho-Heineken will have completed her four-year appointment term upon conclusion of the 2019 AGM. Mrs de Carvalho is eligible for reappointment as executive member of the Board of Directors of Heineken Holding N.V. for a period of four years and a non-binding recommendation shall be submitted to the AGM in this respect.

Mr M.R. de Carvalho will have completed his four-year appointment term upon conclusion of the 2019 AGM. Mr de Carvalho is eligible for reappointment as executive member of the Board of Directors of Heineken Holding N.V. for a period of four years and a non-binding recommendation shall be submitted to the AGM in this respect.

Mrs C.M. Kwist will have completed her four-year appointment term upon conclusion of the 2019 AGM. Mrs Kwist is eligible for reappointment as non-executive member of the Board of Directors of Heineken Holding N.V. for a period of four years and a non-binding recommendation shall be submitted to the AGM in this respect.

ENQUIRIES

Media Heineken Holding N.V.
Kees Jongsma
tel. +31 6 54 79 82 53
E-mail: cjongsma@spj.nl

Media Heineken N.V.
John-Paul Schuirink
Director of Global Communication
Michael Fuchs
Financial Communications Manager
E-mail: pressoffice@heineken.com
Tel: +31-20-5239355

Investors
José Federico Castillo Martinez
Investor Relations Director
Chris MacDonald / Aris Hernandez
Investor Relations Manager / Senior Analyst
E-mail: investors@heineken.com
Tel: +31-20-5239590

INVESTOR CALENDAR HEINEKEN N.V.

(events also accessible for Heineken Holding N.V. shareholders)

Annual report publication	20 February 2019
Trading Update for Q1 2019	24 April 2019
Annual General Meeting of Shareholders	25 April 2019
Half Year 2019 Results	29 July 2019
Trading Update for Q3 2019	23 October 2019

CONFERENCE CALL DETAILS

HEINEKEN will host an analyst and investor conference call in relation to its 2018 FY results today at 10:00 CET/ 9:00 GMT. This call will also be accessible for Heineken Holding N.V. shareholders. The call will be audio cast live via the website: www.theheinekencompany.com/investors/webcasts. An audio replay service will also be made available after the conference call at the above web address. Analysts and investors can dial-in using the following telephone numbers:

Netherlands
Local line: +31(0)20 794 8426
Toll free: (0)800 022 9132

United Kingdom
National free phone: +44 (0)20 3003 2666
Toll free: 0800 109 0700

United States of America
National free phone: +1 212 999 6659
Toll free: +1 866 966 5335

Participation password for all countries: Heineken FYR

Editorial information:
HEINEKEN is the world's most international brewer. It is the leading developer and marketer of premium beer and cider brands. Led by the Heineken® brand, the Group has a portfolio of more than 300 international, regional, local and specialty beers and ciders. HEINEKEN is committed to innovation, long-term brand investment, disciplined sales execution and focused cost management. Through "Brewing a Better World", sustainability is embedded in the business. HEINEKEN has a well-balanced geographic footprint with leadership positions in both developed and developing markets.
HEINEKEN employs over 85,000 employees and operates breweries, malteries, cider plants and other production facilities in more than 70 countries. Heineken N.V. and Heineken Holding N.V. shares trade on the Euronext in Amsterdam. Prices for the ordinary shares may be accessed on Bloomberg under the symbols HEIA NA and HEIO NA and on Reuters under HEIN.AS and HEIO.AS. HEINEKEN has two sponsored level 1 American Depositary Receipt (ADR) programmes: Heineken N.V. (OTCQX: HEINY) and Heineken Holding N.V. (OTCQX: HKHHY). Most recent information is available on the website: www.theHEINEKENcompany.com and follow us on Twitter via @HEINEKENCorp.
Heineken Holding N.V. engages in no activities other than its participating interest in Heineken N.V. and the management or supervision of and provision of services to that company.

Market Abuse Regulation:
This press release may contain inside information within the meaning of Article 7(1) of the EU Market Abuse Regulation.

Disclaimer:
This press release contains forward-looking statements with regard to the financial position and results of HEINEKEN's activities. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Many of these risks and uncertainties relate to factors that are beyond HEINEKEN's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, changes in consumer preferences, the ability to successfully integrate acquired businesses and achieve anticipated synergies, costs of raw materials, interest-rate and exchange-rate fluctuations, changes in tax rates, changes in law, change in pension costs, the actions of government regulators and weather conditions. These and other risk factors are detailed in HEINEKEN's publicly filed annual reports. You are cautioned not to place undue reliance on these forward-looking statements, which speak only of the date of this press release. HEINEKEN does not undertake any obligation to update these forward-looking statements contained in this press release. Market share estimates contained in this press release are based on outside sources, such as specialised research institutes, in combination with management estimates.

REPORT OF THE BOARD OF DIRECTORS

Heineken Holding N.V. has a 50.005% interest in the issued share capital (being 50.516% (2017: 50.514%) of the outstanding share capital) of Heineken N.V. Standing at the head of the HEINEKEN group, Heineken Holding N.V. is not an ordinary holding company. Since its formation in 1952, Heineken Holding N.V.'s object pursuant to its Articles of Association has been to manage or supervise the management of the HEINEKEN group and to provide services for Heineken N.V. Within the HEINEKEN group, the primary duties of Heineken N.V.'s Executive Board are to initiate and implement corporate strategy and to manage Heineken N.V. and its related enterprise. It is supervised in the performance of its duties by Heineken N.V.'s Supervisory Board. Because Heineken N.V. manages the HEINEKEN group companies, Heineken Holding N.V., unlike Heineken N.V., does not have an internal risk management and control system. Heineken Holding N.V. does not engage in any operational activities and employs no staff.

Further information regarding the developments during the financial year 2018 of Heineken N.V. and its related companies, and the material risks Heineken N.V. is facing is given in Heineken N.V.'s press release.

Board of Directors

Mr M. Das
Mrs C.L. de Carvalho-Heineken
Mr M.R. de Carvalho
Mr J.A. Fernández Carbajal
Mrs C.M. Kwist
Mr A.A.C. de Carvalho
Mrs A.M. Fentener van Vlissingen
Mrs L.L.H. Brassey

CONSOLIDATED FINANCIAL STATEMENTS FOR THE FULL YEAR 2018

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The 2018 financial information included in the primary statements attached to this press release are derived from the Annual Report 2018. This Annual Report has been authorised for issue. The Annual Report has not yet been published by law and still has to be adopted by the Annual General Meeting of Shareholders on 25 April 2019.

In accordance with section 393, Title 9, Book 2 of the Netherlands Civil Code, Deloitte Accountants B.V. has issued an unqualified Independent auditors' report on the Financial Statements.

The full Annual Report will be available for download on the website (www.heinekenholding.com) as of 20 February 2019.

Consolidated Income Statement

For the year ended 31 December In millions of €	2018	2017*
Revenue	**26,811**	25,843
Excise tax expense	(4,340)	(4,234)
Net revenue	**22,471**	21,609
Other income	**75**	141
Raw materials, consumables and services	(13,967)	(13,261)
Personnel expenses	(3,749)	(3,550)
Amortisation, depreciation and impairments	(1,693)	(1,587)
Total other expenses	**(19,409)**	(18,398)
Operating profit	**3,137**	3,352
Interest income	62	72
Interest expenses	(493)	(468)
Other net finance income/ (expenses)	(64)	(123)
Net finance expenses	**(495)**	(519)
Share of profit of associates and joint ventures	210	75
Profit before income tax	**2,852**	2,908
Income tax expense	(757)	(755)
Profit	**2,095**	2,153
Attributable to:		
Shareholders of Heineken Holding N.V. (net profit)	961	977
Non-controlling interests in Heineken N.V.	942	958
Non-controlling interests in Heineken N.V. group companies	192	218
Profit	**2,095**	**2,153**
Weighted average number of shares** – basic	288,030,168	288,030,168
Weighted average number of shares** – diluted	288,030,168	288,030,168
Basic earnings per share** (€)	3.34	3.39
Diluted earnings per share** (€)	3.34	3.39

*Restated to reflect the change in accounting policy on Revenue from Contracts with Customers (IFRS 15). Refer to page 13 for more information.

** In 2017 this applied to ordinary shares.

Consolidated Statement of Comprehensive Income

For the year ended 31 December In millions of €	2018	2017
Profit	**2,095**	2,153
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
Remeasurement of post-retirement obligations	221	64
Net change in fair value through OCI investments*	11	—
Items that may be subsequently reclassified to profit or loss:		
Currency translation differences	(100)	(1,485)
Reclassification of currency translation differences to profit	—	59
Change in fair value of net investment hedges	(3)	26
Change in fair value of cash flow hedges	(67)	109
Cash flow hedges reclassified to profit or loss	(77)	(3)
Net change in fair value through OCI investments*	—	68
Share of other comprehensive income of associates/joint	(36)	(7)
Other comprehensive income, net of tax	**(51)**	(1,169)
Total comprehensive income	**2,044**	984
Attributable to:		
Shareholders of Heineken Holding N.V.	934	445
Non-controlling interests in Heineken N.V.	914	436
Non-controlling interests in Heineken N.V. group companies	196	103
Total comprehensive income	**2,044**	984

*In 2017 these investments were classified as available-for-sale investments.

Consolidated Statement of Financial Position

As at 31 December In millions of €	2018	2017
Intangible assets	17,459	17,670
Property, plant and equipment	11,359	11,117
Investments in associates and joint ventures	2,021	1,841
Loans and advances to customers	341	331
Deferred tax assets	622	768
Other non-current assets	1,084	1,059
Total non-current assets	**32,886**	32,786
Inventories	1,920	1,814
Trade and other receivables	3,740	3,676
Current tax assets	71	64
Derivative assets	35	219
Cash and cash equivalents	2,903	2,442
Assets classified as held for sale	401	33
Total current assets	**9,070**	8,248
Total assets	**41,956**	41,034

As at 31 December In millions of €	2018	2017
Heineken Holding N.V. shareholders' equity	7,158	6,633
Non-controlling interests in Heineken N.V.	7,200	6,688
Non-controlling interests in Heineken N.V. group companies	1,182	1,200
Total equity	**15,540**	14,521
Borrowings	12,628	12,166
Post-retirement obligations	954	1,289
Provisions	846	970
Deferred tax liabilities	1,370	1,495
Other non-current liabilities	168	135
Total non-current liabilities	**15,966**	16,055
Borrowings	2,358	3,212
Trade and other payables	6,891	6,128
Returnable packaging deposits	569	607
Provisions	164	178
Current tax liabilities	266	310
Derivative liabilities	70	21
Liabilities associated with assets classified as held for sale	132	2
Total current liabilities	**10,450**	10,458
Total equity and liabilities	**41,956**	41,034

Consolidated Statement of Cash Flows

For the year ended 31 December In millions of €	**2018**	2017
Operating activities		
Profit	2,095	2,153
Adjustments for:		
Amortisation, depreciation and impairments	1,693	1,587
Net interest expenses	431	396
Other income	(75)	(141)
Share of profit of associates and joint ventures and dividend income on fair value through OCI investments	(228)	(84)
Income tax expenses	757	755
Other non-cash items	179	314
Cash flow from operations before changes in working capital and provisions	**4,852**	4,980
Change in inventories	(129)	(185)
Change in trade and other receivables	(66)	(241)
Change in trade and other payables and returnable packaging deposits	908	495
Total change in working capital	**713**	69
Change in provisions and post-retirement obligations	(25)	(125)
Cash flow from operations	**5,540**	4,924
Interest paid	(555)	(463)
Interest received	118	98
Dividends received	109	109
Income taxes paid	(824)	(786)
Cash flow related to interest, dividend and income tax	**(1,152)**	(1,042)
Cash flow from operating activities	**4,388**	3,882

For the year ended 31 December In millions of €	**2018**	2017
Investing activities		
Proceeds from sale of property, plant and equipment and intangible assets	111	187
Purchase of property, plant and equipment	(1,888)	(1,696)
Purchase of intangible assets	(167)	(137)
Loans issued to customers and other investments	(239)	(259)
Repayment on loans to customers	41	54
Cash flow (used in)/from operational investing activities	**(2,142)**	(1,851)
Free operating cash flow	*2,246*	*2,031*
Acquisition of subsidiaries, net of cash acquired	(70)	(1,047)
Acquisition of/additions to associates, joint ventures and other investments	(159)	(93)
Disposal of subsidiaries, net of cash disposed of	15	10
Disposal of associates, joint ventures and other	1	16
Cash flow (used in)/from acquisitions and disposals	**(213)**	(1,114)
Cash flow (used in)/from investing activities	**(2,355)**	(2,965)
Financing activities		
Proceeds from borrowings	1,694	3,268
Repayment of borrowings	(1,545)	(3,205)
Dividends paid	(1,090)	(1,011)
Purchase own shares and share issuance by Heineken N.V.	(20)	—
Acquisition of non-controlling interests	(2)	(18)
Other	(4)	—
Cash flow (used in)/from financing activities	**(967)**	(966)
Net cash flow	1,066	(49)
Cash and cash equivalents as at 1 January	1,177	1,366
Effect of movements in exchange rates	5	(140)
Cash and cash equivalents as at 31 December	**2,248**	1,177

Consolidated Statement of Changes in Equity

In millions of €	Share capital	Share premium	Translation reserve	Hedging reserve	Fair value reserve	Other legal reserves	Retained earnings	Share-holders of Heineken Holding N.V.	Non-controlling interests in Heineken N.V.	Non-controlling interests in Heineken N.V. group	Total equity
Balance as at 1 January 2017	461	1,257	(920)	—	132	420	5,248	6,598	6,640	1,335	14,573
Profit	—	—	—	—	—	77	900	977	958	218	2,153
Other comprehensive income	—	—	(654)	54	35	—	33	(532)	(522)	(115)	(1,169)
Total comprehensive income	—	—	(654)	54	35	77	933	445	436	103	984
Transfer to retained earnings	—	—	—	—	—	(15)	15	—	—	—	—
Dividends to shareholders	—	—	—	—	—	—	(392)	(392)	(383)	(245)	(1,020)
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	—	—	—	—	—
Negative dilution	—	—	—	—	—	—	(6)	(6)	6	—	—
Share-based payments by Heineken N.V.	—	—	—	—	—	—	11	11	11	—	22
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control	—	—	—	—	—	—	(23)	(23)	(22)	28	(17)
Changes in consolidation/transfers within equity by Heineken N.V.	—	—	—	4	—	—	(4)	—	—	(21)	(21)
Balance as at 31 December 2017	461	1,257	(1,574)	58	167	482	5,782	6,633	6,688	1,200	14,521

Consolidated Statement of Changes in Equity (continued)

In millions of €	Share capital	Share premium	Translation reserve	Cost of hedging reserve	Hedging reserve	Fair value reserve	Other legal reserves	Reserve for own shares	Retained earnings	Share-holders of Heineken Holding N.V.	Non-controlling interests in Heineken N.V.	Non-controlling interests in Heineken N.V. group	Total equity
Balance as at 31 December 2017	**461**	**1,257**	**(1,574)**	**—**	**58**	**167**	**482**	**—**	**5,782**	**6,633**	**6,688**	**1,200**	**14,521**
Changes in accounting policy (IFRS 9)	—	—	(1)	2	—	—	—	—	(2)	(1)	(1)	—	(2)
Balance as at 1 January 2018	**461**	**1,257**	**(1,575)**	**2**	**58**	**167**	**482**	**—**	**5,780**	**6,632**	**6,687**	**1,200**	**14,519**
Profit	—	—	—	—	—	—	108	—	853	961	942	192	2,095
Other comprehensive income	—	—	(72)	3	(76)	6	—	—	112	(27)	(28)	4	(51)
Total comprehensive income	**—**	**—**	**(72)**	**3**	**(76)**	**6**	**108**	**—**	**965**	**934**	**914**	**196**	**2,044**
Transfer to/(from) retained earnings	—	—	—	—	—	—	(40)	—	40	—	—	—	—
Dividends to shareholders	—	—	—	—	—	—	—	—	(438)	(438)	(428)	(212)	(1,078)
Purchase own shares	—	—	—	—	—	—	—	—	—	—	—	—	—
Purchase own shares by Heineken N.V.	—	—	—	—	—	—	—	—	(19)	(19)	(19)	20	(18)
Dilution	—	—	—	—	—	—	—	—	1	1	(1)	—	—
Share-based payments by Heineken N.V.	—	—	—	—	—	—	—	—	13	13	13	—	26
Acquisition of non-controlling interests in Heineken N.V. group companies without a change in control	—	—	—	—	—	—	—	—	13	13	13	(30)	(4)
Changes in consolidation/transfers within equity by Heineken N.V.	—	—	—	—	—	—	—	—	22	22	21	8	51
Balance as at 31 December 2018	**461**	**1,257**	**(1,647)**	**5**	**(18)**	**173**	**550**	**—**	**6,377**	**7,158**	**7,200**	**1,182**	**15,540**

NON-GAAP MEASURES

In the internal management reports, HEINEKEN measures its segmental performance primarily based on operating profit and operating profit beia (before exceptional items and amortisation of acquisition-related intangible assets).

In millions of €	2018	2017
Operating profit (beia)	**3,868**	3,759
Amortisation of acquisition-related intangible assets and exceptional items included in operating profit	(731)	(407)
Share of profit of associates and joint ventures	210	75
Net finance expenses	(495)	(519)
Profit before income tax	**2,852**	2,908
Profit attributable to shareholders of Heineken Holding N.V.	961	977
Non-controlling interests in Heineken N.V.	942	958
	1,903	1,935
Amortisation of acquisition-related intangible assets included in	311	302
Exceptional items included in operating profit	420	105
Exceptional items included in net finance expenses/(income)	34	8
Exceptional items and amortisation of acquisition-related	(50)	78
Exceptional items included in income tax expense	(142)	(142)
Allocation of exceptional items and amortisation of acquisition-related intangibles to non-controlling interests	(52)	(39)
Net profit (beia)	**2,424**	2,247

The 2018 exceptional items and amortisation of acquisition-related intangibles on net profit amount to €521 million (2017: €312 million). This amount consists of:

- €311 million (2017: €302 million) of amortisation of acquisition-related intangibles recorded in operating profit.
- €420 million (2017: €105 million) of exceptional items recorded in operating profit, of which nil in revenue (2017: €20 million), €122 million of restructuring expenses (2017: €93 million), €183 million of impairments mainly in the Democratic Republic of Congo (DRC) (2017: €19 million gain from reversal of impairments), €24 million of acquisition and integration costs (2017: €72 million), €4 million net gain on disposals (2017: €71 million net gain mainly from the sale of non-beer and cider wholesale operations in the Netherlands) and €95 million of other exceptional expenses (2017: €10 million which included exceptional benefits of €58 million).
- €34 million (2017: €8 million) of exceptional items in net finance expenses, mainly related to interest over tax liabilities and interest expenses of the pre-financing of acquisitions.
- €50 million of exceptional net benefits and amortisation of acquisition-related intangibles included in share of profit of associates and joint ventures, mainly related to the early termination of a brand license by CCU S.A. in exchange for cash and a portfolio of brands in Argentina (2017: €78 million expense, which included loss on previously-held equity interests and the recycling of foreign exchange from equity to profit and loss).
- €142 million (2017: €142 million) in income tax expense, which includes the tax impact on exceptional items and amortisation of acquisition-related intangible assets of €115 million (2017: €97 million) and an exceptional income tax benefit of €27 million (2017: €45 million, mainly for remeasurement of deferred tax positions following a nominal tax rate change in the United States).
- Total amount of eia allocated to non-controlling interests amounts to €52 million (2017: €39 million).

Update on new standards applicable as per 1 January 2018

IFRS 9
IFRS 9 includes revised guidance on classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. The standard replaces existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. HEINEKEN has implemented IFRS 9 per 1 January 2018 using the modified retrospective approach, meaning that the 2017 comparative financial information is not restated. Any impact of IFRS 9 as of 1 January 2018 is recognised directly in equity. HEINEKEN has reviewed the impact of this new standard and has concluded that the impact is limited.

IFRS 15
HEINEKEN adopted IFRS 15 'Revenue from Contracts with Customers' as per 1 January 2018. For implementation the full retrospective method is applied, meaning that the 2017 comparative financial information has been restated. HEINEKEN concluded that IFRS 15 did not impact the timing of revenue recognition. However, the amount of recognised revenue is impacted by payments to customers and excise taxes as explained below. HEINEKEN has evaluated the available practical expedients for application of the standard and concluded that these options have no significant impact on HEINEKEN's revenue recognition. The practical expedients have therefore not been applied.

The adoption of IFRS 15 has changed the accounting for certain payments to customers, such as listing fees and marketing support expenses. Most of these payments were recorded as operating expenses, but are now considered to be a reduction of revenue. Only when these payments relate to a distinct service the amounts continue to be recorded as operating expenses.

IFRS 15 has also changed the accounting for excise tax. Based on IAS 18 different policies were applied by peers in HEINEKEN's industry. Some companies included all excises in revenue, some recorded excise only for specific countries and some, like HEINEKEN, excluded all excise from revenue. The clarifications to IFRS 15 describe that an 'all or nothing' approach is no longer possible and an assessment of the excise tax needs to be performed on a country by country basis.

Excise taxes are very common in the beverage industry, but levied differently amongst the countries HEINEKEN operates in. HEINEKEN performed a country by country analysis to assess whether the excise taxes are sales-related or effectively a production tax. In most countries excise taxes are effectively a production tax as excise becomes payable when goods are moved from bonded warehouses and are not based on the sales value. In these countries, increases in excise tax are not always (fully) passed on to customers and HEINEKEN cannot, or can only partly, reclaim the excise tax in the case products are eventually not sold to customers. Excise tax is borne by HEINEKEN for these countries and included in revenue. Only for those countries where excise is levied at the moment of the sales transaction and excise is based on the sales value, the excise taxes are collected on behalf of a tax authority and consequently excluded from revenue.

Due to the complexity and variety in tax legislations, significant judgement is applied in the assessment whether taxes are borne by HEINEKEN or collected on behalf of a third party.

To provide full transparency on the impact of the accounting for excise, HEINEKEN presents the excise tax expense on a separate line below revenue in the consolidated income statement. A new subtotal called 'Net revenue' is be added. This 'Net revenue' subtotal is 'revenue' as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN.

The IFRS 15 changes described above had no impact on operating profit, net profit and EPS.

Update on new standards applicable as per 1 January 2019

IFRS 16

IFRS 16 'Leases' replaces existing guidance on leases, including IAS 17. HEINEKEN will implement IFRS 16 per 1 January 2019 by applying the modified retrospective method, meaning that the 2018 comparative numbers in the 2019 financial statements will not be restated. Under the new standard, all operating lease contracts will be recognised on HEINEKEN's balance sheet, except for short term and low value leases. Lease expenses currently recorded in the income statement will be replaced by depreciation and interest expenses for all lease contracts in scope of the standard.

Transition options and practical expedients

HEINEKEN will apply the following practical expedients upon transition to the new standard:

Recognition (permanent):

- Apply the short-term lease exemption, meaning that leases with a duration of less than a year will be expensed in the income statement on a straight-line basis
- Apply the low value lease exemption, meaning that leased assets with an individual value of €5 thousand or less if bought new will be expensed in the income statement on a straight-line basis
- Apply the option to include non-lease components in the lease liability for equipment leases

Transition:

- Use the option to grandfather the lease classification for existing contracts
- Use the transition option for leases with a remaining contract period of less than one year, meaning that these leases will not be recorded on balance and the payments will be expensed in the income statement on a straight-line basis
- Measure the Right-of-Use Asset based on the Lease Liability recognised

Accounting policy on the lease term applied as per 1 January 2019

The lease term shall be determined as the non-cancellable period of a lease, together with:

- Periods covered by an option to extend the lease if HEINEKEN is reasonably certain to make use of that option
- Periods covered by an option to terminate the lease if HEINEKEN is reasonably certain not to make use of that option

Estimated impact on the financial statements:

HEINEKEN has around 30,000 operating leases mainly relating to offices, warehouses, pubs, stores, cars and (forklift) trucks. Based on the contracts that will be capitalised as per 1 January 2019, the estimated impact on the balance sheet on that date, amounts to €1.2 billion increase in total assets and total liabilities. The increase in assets consist of Right-of-use Assets for €0.9 billion and lease receivables for €0.3 billion. The increase in liabilities consists of €1.2 billion of lease liabilities.

In some countries, HEINEKEN is operating both as a lessee and a lessor for pubs. HEINEKEN analysed the contracts where HEINEKEN acts as a lessor (subleases) and concluded that under the new standard these sublease contracts are to be treated as a finance lease, where under the previous standard these same leases were treated as an operating lease. This change results in a decrease of revenue, primarily impacting The Netherlands and Belgium.

For the contracts that will be capitalised as per 1 January 2019, the estimated impact on the income statement will be as follows:

Income statement	Estimated IFRS16 impact	Remarks
Revenue	**(52)**	The decrease in revenue (income from subleases) is fully offset by a decrease in expenses on the head leases (relates primarily to The Netherlands and Belgium).
Excise tax expense	—	
Net revenue	**(52)**	
Other income	—	
Raw materials, consumables and services	259	A decrease in raw materials, consumables and services, as a result of the shift of operating lease expenses to depreciation and interest.
Personnel expenses	—	
Amortisation, depreciation and impairments	(186)	An increase in depreciation, amortisation and impairments, as a result of depreciation of the Right-of-Use Assets.
Total other	**73**	
Operating profit	**21**	
Net finance expenses	**(40)**	An increase in net finance expenses as a result of the unwinding of the discount on lease liabilities and accretion of interest on lease receivables.
Share of profit of associates and joint ventures	—	
Profit before	**(19)**	
Income tax expense	5	
Profit	**(14)**	

For the contracts that will be capitalised as per 1 January 2019, the impact on the cash flow statement is estimated to be:

- An increase of €0.2 billion on cash flows from operating activities (and free operating cash flow) and a corresponding decrease in cash flow from financing
- The impact on net cash flow will be neutral

It is expected that the actual impact on the financial statements in 2019 will be different as a result of:

- The finalisation of the validation of completeness and accuracy of the identified contracts
- The finalisation of the identification of embedded leases
- New lease contracts to be entered into in 2019

Reconciliation of the off-balance sheet commitments with the estimated impact

HEINEKEN will report a total off-balance sheet commitment for leases of €2.0 billion as at 31 December 2018. The difference between the estimated opening balance sheet impact of €1.2 billion (lease liabilities) and the off balance sheet commitments is primarily due to low value and short term lease commitments, which are not included in the lease liability, and the impact of discounting of future lease payments.

GLOSSARY

Acquisition-related intangible assets
Acquisition-related intangible assets are assets that HEINEKEN only recognises as part of a purchase price allocation following an acquisition. This includes, among others, brands, customer-related and certain contract-based intangibles.

Beia
Before exceptional items and amortisation of acquisition-related intangible assets.

Cash conversion ratio
Free operating cash flow/net profit (beia) before deduction of non-controlling interests.

Cash flow (used in)/from operational investing activities
This represents the total of cash flow from sale and purchase of property, plant and equipment and intangible assets, proceeds and receipts of loans to customers and other investments.

Consolidation changes
Changes as a result of business combinations or disposals.

Depletions
Sales by distributors to the retail trade.

Dividend payout
Proposed dividend as percentage of net profit (beia).

Earnings per share (EPS)
Basic
Net profit divided by the weighted average number of shares – basic – during the year.
Diluted
Net profit divided by the weighted average number of shares – diluted – during the year.

EBITDA
Earnings before interest, taxes, net finance expenses, depreciation and amortisation. EBITDA includes HEINEKEN's share in net profit of joint ventures and associates.

Effective tax rate
Income tax expense expressed as a percentage of the profit before income tax, adjusted for share of profit of associates and joint ventures.

Eia
Exceptional items and amortisation of acquisition-related intangible assets.

Exceptional items
Items of income and expense of such size, nature or incidence, that in the view of management their disclosure is relevant to explain the performance of HEINEKEN for the period.

Free operating cash flow
This represents the total of cash flow from operating activities and cash flow from operational investing activities.

HEINEKEN
Heineken Holding N.V., Heineken N.V., its subsidiaries and interests in joint ventures and associates

Net debt
Non-current and current interest bearing borrowings, bank overdrafts and commercial paper and market value of cross-currency interest rate swaps less cash and cash equivalents.

Net profit
Profit after deduction of non-controlling interests (profit attributable to shareholders of Heineken Holding N.V.).

Net revenue
Revenue as defined in IFRS 15 (after discounts) minus the excise tax expense for those countries where the excise is borne by HEINEKEN.

Organic growth
Growth excluding the effect of foreign currency translational effects, consolidation changes, exceptional items and amortisation of acquisition-related intangible assets.

Organic volume growth
Growth in volume, excluding the effect of consolidation changes.

Price mix
Refers to the different components that influence net revenue per hectolitre, namely the changes in the absolute price of each individual sku and their weight in the portfolio.

Profit
Total profit of HEINEKEN before deduction of non-controlling interests.

®

All brand names mentioned in this report, including those brand names not marked by an ®, represent registered trademarks and are legally protected.

Region
A region is defined as HEINEKEN's managerial classification of countries into geographical units.

Volume

(Consolidated) beer volume
100 % of beer volume produced and sold by consolidated companies.
Group beer volume
Consolidated beer volume plus attributable share of beer volume from joint ventures and associates.
Licensed & non-beer volume
HEINEKEN's brands produced and sold under licence by third parties as well as cider, soft drinks and other non-beer volume sold in consolidated companies.
Third party products volume
Volume of third party products sold through consolidated companies.
Total volume
100 % of volume produced and sold by consolidated companies (including beer, cider, soft drinks and other beverages), volume of third party products and volume of HEINEKEN's brands produced and sold under licence by third parties.

Weighted average number of shares
Basic
Weighted average number of outstanding shares.
Diluted
Weighted average number of shares outstanding, adjusted for the weighted average number of own shares purchased or held.